



INTELLECTUAL PROPERTY LAW SECTION

THE STATE BAR OF CALIFORNIA

2005 - LEGISLATIVE PROPOSAL

TO: State Bar Office of Governmental Affairs [1]

FROM: Joanna Mendoza

DATE: August 1, 2005

RE: **Reforms to the California Uniform Trade Secrets Act (Civil Code §3426.4, §3426.5, §3426.7(c), and C.C.P. §2019.210) and to the Public Records Act with regard to requests involving trade secrets (Govt. Code §6253(f), §6254(k) and adding new section of Government Code)**

(Note: These reports will be distributed to all sections and standing committees of the Board of Governors for comment.

Pursuant to State Bar Policies & Procedures, [2] the comment period is 60 days unless the proposal is submitted to the Office of Governmental Affairs on or before August 1 of a given year and circulated as part of the annual package of section/committee legislative proposals, in which case a shorter comment period (of unspecified duration) is permitted.

It is important that you be as detailed and specific as possible in explaining the reasons for your affirmative legislative proposal. These reports should include the following information.)

SECTION ACTION AND CONTACT(S):

Date of Approval by Section Executive Committee/Standing Committee: July 30, 2005

Approval vote: For – Unanimous Against – 0

Date of Approval by Section Committee/Subcommittee (if applicable): _____

Approval vote: For _____ Against _____

Contact	Section/Committee Legislative Chair
Name: Joanna Mendoza	Name: JoAnna Esty
Address: Malovos & Mendoza, LLP 3620 American River Drive, Ste. 215 Sacramento, CA 95864	Address: Liner, Yankelevitz, et al. 1100 Glendon Avenue, 14 th Floor Los Angeles, CA 90024
Phone: (916) 974-8600	Phone: (310) 500-3596
Fax: (916) 974-8608	Fax: (310) 500-3501
Email: jrm@malovoslaw.com	Email: jesty@linerlaw.com

DIGEST: *A very brief description of what the legislation would do. UTSA Reforms: Strengthens trade secret protection during litigation (plaintiff's and defendant's trade secrets) and adds continuity regarding trade secret discovery practices by adding clarifying language intended to adopt best practices. PRA Reforms: Makes changes to PRA to more closely parallel federal FOIA by adding specific exclusion for trade secrets (currently implied but not explicit), and sets forth procedure for state agencies to follow like that done by federal agencies when such requests are made.*

PURPOSE: *Why is this legislation necessary or desirable? Answer all three of the following questions (for multi-part proposals, answer all three questions for each part).*

Civil Code §3426.4:

1). What is the state of existing law (statutory and/or case law) on the issue?

For reasons undisclosed in the legislative history, the consequence for prevailing in a trade secret misappropriation case brought in bad faith, or if willful and malicious misappropriation was found, included an award of attorneys' fees but "costs" were not enumerated in the statute. It could have been because costs are normally recoverable if one prevails in a case in any event, but there is a possibility for misinterpretation that exists when the term is excluded. Especially since the legislative history indicates it was proposed and agreed to by the Conference of Delegates in 1983, thinking that failing to include the term "costs" was simply an oversight since it is more reasonable and usual to award costs than attorneys' fees.

2). What is the problem with the existing law?

Subject to interpretation to exclude the recovery of costs if a party prevails when a claim of misappropriation is found to have been in bad faith, when a motion to terminate an injunction is made or resisted in bad faith, or when willful and malicious misappropriation exists. Furthermore, consequences should include a greater measure of "costs" beyond those usually recoverable given the nature of the conduct involved.

3). How does this proposal remedy the problem?

The statute has been amended to include the term "costs" with an expanded definition which includes the costs of expert witnesses who are not regular employees of the party – similar to the provisions set forth in C.C.P. §998. The language proposed at the end of this section has been directly adapted from that language found at C.C.P. §998 (c) and (d), and is not intended to cover attorneys' fees, which is dealt with separately in the UTSA. It merely expands the recovery for reprehensible conduct to ensure inclusion of a broad definition of costs in addition to attorneys' fees, which are already included in the statute.

ILLUSTRATIONS: *Give at least one specific example, preferably drawn from real life, of how this proposal would solve the problem described above.*

DOCUMENTATION: *Does documentary evidence (e.g. studies, reports, statistics or facts) exist which supports your conclusion that there is a problem. If so, please list.* Practitioners recognize the problem and enthusiastically welcome this change. However, there are no known studies which support our conclusion that the existing statute is a problem.

HISTORY: *Has a similar bill been introduced either this session or during a previous legislative session? If yes, please identify the bill, the legislative session, the bill's disposition, and include any bill analyses related to the prior legislation.* Not to the Committee's knowledge.

PENDING LITIGATION: *List any pending litigation of which you are aware which would be impacted by this legislation if enacted.* None known.

LIKELY SUPPORT & OPPOSITION: *Which major interest groups, organizations, professional associations, governmental agencies, key lawmakers, individual attorneys, etc., are likely to support this proposal? Which are likely to oppose it. Why? What arguments will be made against it?*

<p><u>Support</u> : Businesses in California who have trade secrets they are trying to keep protected, plaintiffs in trade secret misappropriation cases whose trade secrets have been misappropriated through willful and malicious conduct, defendants in trade secret misappropriation cases that have been brought in bad faith, attorneys practicing trade secret litigation; intellectual property practitioners; legislative members who have businesses as constituents that hold intellectual property in the form of trade secrets; the governor, who is trying to make California a better business environment, American Intellectual Property Law Association. (AIPLA); Intellectual Property Owners Association (IPO); AeA (formerly American Electronics Association); California Chamber of Commerce; other trade groups with businesses who maintain trade secrets as a form of intellectual property.</p>	<p><u>Why?</u> : This is a change that benefits both plaintiffs and defendants. It benefits plaintiffs who have successfully established that a defendant acted willfully and maliciously to steal trade secrets and it benefits defendants who have successfully established that a plaintiff has brought such an action in bad faith. It adds additional consequences to such conduct, ensuring the recovery of costs in case there was any question with regard to such recovery and expands the definition so that the party who has prevailed is able to recover expert witness fees in addition to ordinary costs. Given the technical nature of many trade secret misappropriation cases, this is an expense which a party should not need to bear when such conduct has been established.</p>
<p><u>Oppose</u> Defendants who have misappropriated trade secrets and hope to avoid paying damages of any kind as a consequence for that misappropriation.</p>	<p><u>Why? Include possible arguments in opposition:</u> Defendants that have misappropriated trade secrets or intend to would want to reduce or eliminate any damages to be suffered as a result of that conduct. Defendants who have not misappropriated trade secrets, however, would be unaffected by this change.</p>

FISCAL IMPACT: *How much will it cost? How will these costs be funded? No cost.*

GERMANENESS: Briefly explain how either:

1. The subject matter of the bill is necessarily or reasonably related to the regulation of the legal profession or improvement of the quality of legal services *or*
2. The matter requires the special knowledge, training, experience or technical expertise of the section? Intellectual property practitioners, who tend to represent both plaintiffs and defendants in intellectual property disputes rather than only one type of litigant, are uniquely qualified to understand the reason for and advantage of changes to the existing UTSA.

TEXT OF PROPOSAL: *Attach the text of the proposal, indicating changes from existing law in italicized type (for additions) or ~~strikeout type~~ (for deletions).*

3426.4. If a claim of misappropriation is made in bad faith, a motion to terminate an injunction is made or resisted in bad faith, or willful or malicious misappropriation exists, the court may award reasonable attorney's fees *and costs* to the prevailing party. *Recoverable costs hereunder shall include a reasonable sum to cover the services of expert witnesses, who are not regular employees of any party, actually incurred and reasonably necessary in either, or both, preparation for trial or arbitration, or during trial or arbitration, of the case by the prevailing party.*

Civil Code §3426.5:

- 1). What is the state of existing law (statutory and/or case law) on the issue?

For reasons unknown, the word “use” was not included in the original language regarding the requirement to maintain the status of trade secrets during litigation – not to disclose the trade secrets during litigation is included, and it should have also required that trade secrets not be “used.”

- 2). What is the problem with the existing law?

It is not as complete as it should be – this is a technical change, but one that is important to make before bad law is made as a result of it.

- 3). How does this proposal remedy the problem?

This is a simple, technical change to establish the full intent of the statute.

ILLUSTRATIONS: *Give at least one specific example, preferably drawn from real life, of how this proposal would solve the problem described above.* The Uniform Trade Secrets Act, as originally passed, was intended by the Legislature to protect against abusive practices by unscrupulous businesses who would use litigation to gain improper access to trade secrets of a competitor or to put a competitor out of business using groundless accusations of trade secret misappropriation. If there remains ambiguity in certain aspects of the UTSA, it provides an opening for argument by such unscrupulous litigants to avoid the intent of the law. In this case, because the statute only prohibits disclosure of trade secrets during litigation, but not their use, it provides an opportunity for a company to argue that their use of their competitor’s trade secrets, acquired in the litigation, is not prohibited – only disclosure. If they did not

“disclose” the information, they cannot be held accountable. This change ensures no such arguments will be successful.

DOCUMENTATION: *Does documentary evidence (e.g. studies, reports, statistics or facts) exist which supports your conclusion that there is a problem. If so, please list. None known.*

HISTORY: *Has a similar bill been introduced either this session or during a previous legislative session? If yes, please identify the bill, the legislative session, the bill’s disposition, and include any bill analyses related to the prior legislation. Not to the committee’s knowledge.*

PENDING LITIGATION: *List any pending litigation of which you are aware which would be impacted by this legislation if enacted. None known.*

LIKELY SUPPORT & OPPOSITION: *Which major interest groups, organizations, professional associations, governmental agencies, key lawmakers, individual attorneys, etc., are likely to support this proposal? Which are likely to oppose it. Why? What arguments will be made against it?*

<p><u>Support</u> Businesses in California who have trade secrets, plaintiffs and defendants in trade secret misappropriation cases, attorneys practicing trade secret litigation; courts; intellectual property practitioners; legislative members who have businesses as constituents that hold intellectual property in the form of trade secrets; the governor, who is trying to make California a better business environment, American Intellectual Property Law Association. (AIPLA); Intellectual Property Owners Association (IPO); AeA (formerly American Electronics Association); California Chamber of Commerce; other trade groups with businesses who maintain trade secrets as a form of intellectual property.</p>	<p><u>Why?</u> : This is a technical change that ensures the original intent is followed and applied. Provides greater protection of trade secrets during litigation – both plaintiff’s trade secrets and defendant’s trade secrets, both of which become the subject of discovery during the litigation.</p>
<p><u>Oppose:</u> Uncertain</p>	<p><u>Why? Include possible arguments in opposition</u> This being a simple, technical change, it is possible that some will argue that it is not necessary.</p>

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FISCAL IMPACT: *How much will it cost? How will these costs be funded? No cost.*

GERMANENESS: Briefly explain how either:

1. The subject matter of the bill is necessarily or reasonably related to the regulation of the legal profession or improvement of the quality of legal services *or*
2. The matter requires the special knowledge, training, experience or technical expertise of the section? Intellectual property practitioners, who tend to represent both plaintiffs and defendants in intellectual property disputes rather than only one type of litigant, are uniquely qualified to understand the reason for and advantage of changes to the existing UTSA.

TEXT OF PROPOSAL: *Attach the text of the proposal, indicating changes from existing law in italicized type (for additions) or ~~strikeout type~~ (for deletions).*

3426.5. In an action under this title, a court shall preserve the secrecy of an alleged trade secret by reasonable means, which may include granting protective orders in connection with discovery proceedings, holding in-camera hearings, sealing the records of the action, and ordering any person involved in the litigation not to *use or* disclose an alleged trade secret without prior court approval.

Civil Code §3426.7(c):

- 1). What is the state of existing law (statutory and/or case law) on the issue?

This is tied into the PRA and the proposed changes thereto. See discussion below.

- 2). What is the problem with the existing law?

This is tied into the PRA and the proposed changes thereto. See discussion below. The law, as currently written, leaves ambiguity regarding exclusion of trade secrets and allows a competitor to attempt to circumvent the UTSA discovery provisions (C.C.P. §2019.210) by issuing a PRA for information held by state agencies. In an effort to more closely parallel the language and procedures of the FOIA and federal government agencies, the Committee wants to ensure that sufficient protections are in place and followed uniformly throughout the state.

- 3). How does this proposal remedy the problem?

See discussion below regarding changes to the PRA. In an effort to protect against the use of California's Public Records Act as an improper means of acquiring a competitor's trade secrets, it is recommended that subsection "c" of 3426.7 be deleted and that the Public Records Act be revised to specifically exclude "trade secrets" from disclosure, making the PRA more in line with the Freedom of Information Act under the United States' statutory scheme. [See below]

ILLUSTRATIONS: *Give at least one specific example, preferably drawn from real life, of how this proposal would solve the problem described above.*

In a case one of our members has been involved in, highly sensitive trade secrets (outline of production for an animal biologic) were submitted to the California Department of Food and Agriculture as required by the animal biologics regulations. A competitor subpoenaed information that was trade secret, and the agency ignored the objections made on that basis and decided it was not for them to decide what to withhold. The agency was uncertain what it was supposed to do with the fact that trade secrets were involved, or the fact that it was a subpoena rather than a PRA request. Explicit language to this effect would have given the agency guidance. Instead, the agency decided it was easiest for them to simply provide the information to the requester and, if the submitter had a problem, it could go to court after the production was made to argue about what should not have been produced. Later, in a situation involving the same parties, the requester submitted a PRA request rather than a subpoena. Because no procedures were in place, the submitter did not learn about the PRA request from the agency and only by learning about it through the grapevine did they have any opportunity to object. When the submitter asked the CDFA for an opportunity to review the documents that were to be produced in response to the PRA, and opportunity to object on the basis of trade secret privilege, the CDFA declined by, once again, leaving it to the submitter to remedy any disclosures to its competitor after the fact. The agency had no interest in involving itself in the litigation by quashing a subpoena or objecting when that was the issue, and it had no interest in making determinations regarding trade secrets when it was a PRA request.

Alternatively, when the United States Department of Agriculture was faced with a similar subpoena in an earlier litigation involving competitors in the animal biologics market, it treated the subpoena like a FOIA request. This involved notifying the submitter, allowing the submitter to review the materials that were responsive to the request and identifying the trade secret material. The submitter was required to explain how the information was trade secret, and the USDA did not produce the information in response to the subpoena/FOIA request. A procedure for handling this was followed as set forth in the Executive Order, it was done smoothly and gave the submitter great assurance that the trade secret information it was required by law to disclose to the government agency would be protected against unwarranted disclosure to a competitor.

DOCUMENTATION: *Does documentary evidence (e.g. studies, reports, statistics or facts) exist which supports your conclusion that there is a problem. If so, please list.* This proposal is supported by personal experience of committee members and members of the legal community, and based upon an admittedly unscientific canvassing of state agency personnel who all seemed very supportive of these changes to the PRA. Furthermore, Chapter 23 in the Intellectual Property Section's recent publication "Trade Secret Litigation and Protection in California" addresses the disparity between the PRA and the FOIA and concerns regarding California's version.

HISTORY: *Has a similar bill been introduced either this session or during a previous legislative session? If yes, please identify the bill, the legislative session, the bill's disposition, and include any bill analyses related to the prior legislation.* Not to the Committee's knowledge.

PENDING LITIGATION: *List any pending litigation of which you are aware which would be impacted by this legislation if enacted.* None.

LIKELY SUPPORT & OPPOSITION: *Which major interest groups, organizations, professional associations, governmental agencies, key lawmakers, individual attorneys, etc., are likely to support this proposal? Which are likely to oppose it. Why? What arguments will be made against it?*

<p><u>Support</u> All businesses who are required to do business with state agencies, state agencies; intellectual property practitioners; legislative members who have businesses as constituents that submit commercially sensitive information to the state; the governor, who is trying to make California a better business environment, American Intellectual Property Law Association. (AIPLA); Intellectual Property Owners Association (IPO); AeA (formerly American Electronics Association); California Chamber of Commerce; other trade groups with businesses who are heavily regulated or who have trade secrets that must be submitted to state agencies.</p>	<p><u>Why?</u> : This proposal will add a level of protection for businesses who do business with state agencies, some of whom are even required by regulation to submit trade secret information. It will improve relations between the state and such businesses, and will make California more protective of business' trade secrets against unwarranted disclosure to competitors. It adds uniformity by state agencies with regard to how such requests are handled, and puts the responsibility back on the submitter for identifying its trade secrets. It also leaves the agencies out of the dispute regarding whether the designations were properly made.</p>
<p><u>Oppose</u> Uncertain</p>	<p><u>Why? Include possible arguments in opposition:</u> Those who have been able to acquire trade secret or commercially sensitive information belonging to other businesses through the use of PRA requests in the past may have objection to this, but such motivations are questionable. Furthermore, the law would provide those same parties to go directly against the submitter of such information with regard to whether or not it should have been withheld from disclosure under the PRA.</p>

FISCAL IMPACT: *How much will it cost? How will these costs be funded?* None known.

GERMANENESS: Briefly explain how either:

1. The subject matter of the bill is necessarily or reasonably related to the regulation of the legal profession or improvement of the quality of legal services *or* This change is related to those below regarding changes to the PRA, improving attorneys' ability to protect client's trade secrets by articulating a uniform process and handling of PRA requests involving trade secrets.
2. The matter requires the special knowledge, training, experience or technical expertise of the section? Similarly, like the PRA changes recommended, trade secret practitioners are uniquely qualified to comment upon and propose changes involving the handling of trade secret information which is required by regulation to be provided to state agencies.

TEXT OF PROPOSAL: *Attach the text of the proposal, indicating changes from existing law in italicized type (for additions) or ~~strikeout type~~ (for deletions).*

3426.7 (c)

Code of Civil Procedure §2019.210:

1). What is the state of existing law (statutory and/or case law) on the issue? Practitioners and litigants in California have been given no guidance by the state appellate courts with regard to the interpretation of the existing statute. Given the unlikelihood of having a writ on discovery matters heard in this state, it is unlikely that guidance will come anytime soon. However, with only a handful of federal courts addressing this issue, litigants who are dealing with discovery regarding trade secrets in California are oftentimes spending an inordinate amount of time litigating disputes over the interpretation of this statute. It is costly and a waste of the litigant's time and judicial resources. Furthermore, because of the lack of guidance at the appellate level, there is no uniformity throughout the State's courts for how the existing statute shall be interpreted and applied. As a result, business' trade secrets receive different levels of protection during litigation depending upon the court in which the action is brought. It is important to all involved in the State's judicial process to have guidance and uniformity.

2). What is the problem with the existing law? See 1 above. It is uncertain whether it is to be applied to only trade secret misappropriation causes of action, or if it should apply to causes of action, such as unfair competition, when misappropriation is the underlying claim. It is uncertain what the purpose is to be achieved and how to achieve it. The level of specificity required is unclear, as is the procedure for objecting to the disclosure and amending it.

In 1983, it was this section's own proposal to the legislative committee considering adoption of the UTSA to add the original 2019(d) language. The Conference of Delegates presented the reasons as follows:

One area not addressed by the Uniform Act is the area of plaintiff's abuse in initiating trade secret lawsuits for the purpose of harassing or even driving a competitor out of business by forcing the competitor to spend large sums in defending unwarranted litigation. For example, where a plaintiff's employee quits and opens a competing business, a plaintiff often files a lawsuit for trade secret misappropriation which states that the defendant took and is using plaintiff's trade secrets, but does not identify the trade secrets. The plaintiff can then embark upon extensive discovery which the new business is ill equipped to afford. Furthermore, ***by not informing the defendant with any degree of specificity as to what the alleged trade secrets are, defendant may be forced to disclose its own business or trade secrets, even though those matters may be irrelevant,*** and the defendant may not learn of the exact nature of the supposedly misappropriated trade secrets until the eve of trial. [Emphasis added]

Focusing on the purpose of preventing the defendant from having to produce its own trade secrets if they are irrelevant to the lawsuit, together with the other purposes identified for requiring the plaintiff to identify its trade secrets with reasonable specificity prior to being able to engage in discovery, changes are proposed by the Committee which they believe will better serve those purposes.

Unfortunately, the statute has been made vulnerable to broad, conflicting interpretations by trial courts. There was no way for practitioners in 1983, with an untried statute, to know how the language they were proposing would be abused and misinterpreted. Clarification is necessary. Due to the absence of appellate guidance since the statute was passed in 1984, litigants are left to the mercy of the trial court

in which they appear as to how this statute will be interpreted before being required to turn over sensitive trade secret information to a competitor. The results can be devastating to a business that relies upon trade secret protection for its intellectual property. Specific additions to the statutory scheme are required in order to correct its current deficiencies and ensure uniform application.

3). How does this proposal remedy the problem? The Committee proposes deleting “under the Uniform Trade Secrets Act (Title 5 (commencing with Section 3426) of Part 1 of Division 4 of the Civil Code)” – the purpose is to make sure the statute is applied to any cause of action, the basis of which is misappropriation of trade secrets, despite how the cause of action is labeled (e.g., unfair competition, breach of contract, breach of fiduciary duty, etc.)

Other changes are combined proposals from several members intending to codify best practices often used in those courts familiar with such litigation. However, in general it has been recognized that the statute was enacted to curb unsupported trade secret lawsuits routinely commenced to harass competitors and former employees. Trade secret claims are especially prone to discovery abuse since neither the court nor the parties can delineate the scope of permissible discovery without an identification of the alleged trade secrets involved in the case. Unlimited disclosure of its competitor’s trade secrets would enhance a party’s settlement leverage and allow it to conform misappropriation claims to the evidence produced by the other party in discovery. The proposed changes are intended to better address these matters.

ILLUSTRATIONS: *Give at least one specific example, preferably drawn from real life, of how this proposal would solve the problem described above. Several of the practitioners in the committee have seen this statute abused by both plaintiffs and defendants. Here is an illustration of the problem with the existing statutory language, drawn from a real case:*

Plaintiff brings trade secret misappropriation case against defendant former employee who has started a competing business. Former employee was an integral part of the R&D at the plaintiff’s place of business. Former employee’s new business is succeeding, and products are argued in advertising to be better than plaintiff’s. The competition is fierce between them, and plaintiff is angry and suspicious, and would benefit greatly from both a) putting defendant out of business and b) learning what the defendant is doing to make her products better. Defendant is convinced that plaintiff is bringing the case in bad faith for these very purposes.

Before discovery, plaintiff identifies its “trade secrets” as nearly every formula that the defendant developed or was exposed to while employed. Problem: Very little identified by the plaintiff meets the definition of a “trade secret” under the UTSA because it has nearly all been published. Furthermore, the only thing that meets the definition of a “trade secret” does not even belong to the plaintiff, but instead is merely licensed to the plaintiff under a manufacturing agreement only. However, plaintiff’s technical formulations identified for the court under 2019(d) appear to the court to be made with “reasonable particularity” because of the technical detail.

Defendant, on the other hand, has created and used new “trade secrets” which improve its products. It objects to the plaintiff’s 2019(d) designation because everything identified by the plaintiff either is not a “trade secret” or is not owned by the plaintiff. Nevertheless, because the existing statute only requires that the plaintiff “identify the trade secret with reasonable particularity,” and it has provided enough detail to qualify as “reasonably particular,” the judge overrules the objection because the defendant is reading things into the statute that simply is not there. The *only* thing the court is looking at is whether the “secret” sued upon has been defined with “reasonable particularity.” Because the plaintiff has “complied with the statute,” discovery into the defendant’s trade secrets is allowed without any sustainable objection thereto. The plaintiff, with no trade secrets that it owns, is now getting access to its competitor’s trade secrets – the very trade secrets that the defendant is claiming makes its products better.

The statute, as currently worded, has been strictly adhered to – and §2019(d) served none of the purposes, whatsoever, intended for it to be served when it was originally proposed. The defendant cannot bring a motion for summary judgment or adjudication because several trade secrets were alleged and such a motion is only appropriate if it can eliminate the entire cause of action – not narrow down the cause of action to only those trade secrets, if any, that are relevant. Despite the fact that plaintiff has no trade secrets which its owns, the defendant must turn over all its most sensitive trade secrets during the litigation, and then must wait until either a motion in limine or trial to get her chance to prove plaintiff had no trade secrets to begin with.

Similar abuses happen when the plaintiff does identify its trade secrets with sufficient particularity, but the defendant consistently objects on the basis that this has not occurred. Both sides of the litigation need guidance. Furthermore, the handling of such matters in the rural county superior courts is very different than those court's who have experience and the sophistication necessary for proper handling of such matters. More guidance is critical for uniformity of application. Some of the practitioners in the committee have had very bad experiences with judges who are simply unfamiliar with the law and do not know how to interpret the existing statutory structure.

DOCUMENTATION: *Does documentary evidence (e.g. studies, reports, statistics or facts) exist which supports your conclusion that there is a problem. If so, please list.* None known. Only identified by practitioners in the field. Articles have been written about it, including the most recent publication by the committee – Trade Secret Litigation and Protection in California.

HISTORY: *Has a similar bill been introduced either this session or during a previous legislative session? If yes, please identify the bill, the legislative session, the bill's disposition, and include any bill analyses related to the prior legislation.* Not to the knowledge of the committee.

PENDING LITIGATION: *List any pending litigation of which you are aware which would be impacted by this legislation if enacted.* By the time this legislation would be passed, any cases currently pending would have already dealt with this statute since it comes into play before discovery really begins in such cases.

LIKELY SUPPORT & OPPOSITION: *Which major interest groups, organizations, professional associations, governmental agencies, key lawmakers, individual attorneys, etc., are likely to support this proposal? Which are likely to oppose it. Why? What arguments will be made against it?*

<p><u>Support</u> Businesses in California who have trade secrets, plaintiffs and defendants in trade secret misappropriation cases, attorneys practicing trade secret litigation; courts; intellectual property practitioners; legislative members who have businesses as constituents that hold intellectual property in the form of trade secrets; the governor, who is trying to make California a better</p>	<p><u>Why?</u> : This clarification of the law will assist litigants, attorneys and the courts with regard to the unique discovery requirement of cases involving trade secrets. It will lend guidance and uniformity where both had been previously absent. It presents the procedure and application already existing in courts familiar with the practice and creates uniformity.</p>
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business environment, American Intellectual Property Law Association. (AIPLA); Intellectual Property Owners Association (IPO); AeA (formerly American Electronics Association); California Chamber of Commerce; other trade groups with businesses who maintain trade secrets as a form of intellectual property.	
<u>Oppose</u> Uncertain	<u>Why? Include possible arguments in opposition</u> Litigants who have used this statute in the past, both plaintiff and defendant, as a means of prolonging litigation and discovery by use of this statute.

FISCAL IMPACT: *How much will it cost? How will these costs be funded?* No cost involved.

GERMANENESS: Briefly explain how either:

1. The subject matter of the bill is necessarily or reasonably related to the regulation of the legal profession or improvement of the quality of legal services *or* This is a change to civil procedure, intended to codify existing best practices to ensure uniformity and provide guidance to courts less familiar with the practice.
2. The matter requires the special knowledge, training, experience or technical expertise of the section? Trade secret practitioners are uniquely qualified to espouse upon the problems with the existing statute and the need for clarification that we have been unable to receive from the appellate courts for over 20 years since the UTSA was passed in California.

TEXT OF PROPOSAL: *Attach the text of the proposal, indicating changes from existing law in italicized type (for additions) or ~~strikeout type~~ (for deletions).*

2019.210. (a) In any action alleging the misappropriation of a trade secret, before commencing discovery relating to the trade secret, the party alleging the misappropriation shall identify the trade secret with reasonable particularity. *Any document identifying a trade secret under this section need not be filed with the court, but the party making the identification may require that it be subject to any protective order that may be appropriate under Section 3426.5 of the Civil Code prior to serving it upon any party. If the document identifying a trade secret under this section is filed with the court for any reason, it shall be filed under seal unless good cause is shown. A “trade secret” as referred to herein is defined as set forth in Section 3426.1(d) of the Civil Code.*

(b) *In determining the appropriate level of specificity the court shall consider (i) the purposes of this section to deter the filing of frivolous claims, encourage well-investigated claims, and to provide guidance in establishing the scope and limits of discovery related to the trade secret misappropriation claim, (ii) the extent to which the nature of the secret information makes it amenable to precise description, (iii) the extent to which the information is closely integrated with general skill and*

knowledge properly retained by former employees, and (iv) the extent to which the information is alleged to be exclusively in the possession of the party accused of misappropriation.

(c) If the party alleging the misappropriation does not identify the trade secret with reasonable particularity, or has served a document purporting to identify its trade secret(s) as required in this section, prior to commencing discovery relating to the trade secret, any other party who is the target of or otherwise affected by such discovery may (1) object to any such discovery requested of it; or (2) move for a protective order that such discovery requested of it or others shall not be had until the party alleging the misappropriation fully complies with this section; or (3) both. If such objection or protective order is made, then such discovery need not be responded to until the court makes a determination that the party alleging the misappropriation has identified a trade secret with reasonable particularity.

Government Code §6253(f):

1). What is the state of existing law (statutory and/or case law) on the issue? There is federal guidance for treating business record subpoenas as FOIA requests, but there is no similar state law doing the same. While the different Acts are intended to be parallel and interpreted accordingly, the federal law has become more developed and more procedures are in place at the federal level to ensure that the Act addresses the handling of requests, whether they be by written FOIA request or subpoena, with uniformity and keeping trade secrets and commercially sensitive information outside of the public's general access without court order.

2). What is the problem with the existing law? Even if a state agency is careful to withhold trade secret information from a PRA requester, such withholding of information is not as likely to occur if the request comes instead in the form of a subpoena for business records. The federal agencies treat such requests identically, ensuring that there is no attempted run around to avoid the protections set forth in the FOIA for submitters of information to the government. The state, however, has not articulated policy. This would ensure compliance with the PRA, regardless of the form in which the request is made, as well as uniformity of application.

3). How does this proposal remedy the problem?

This is a proposal to add a new provision to the Public Records Act that would specifically treat a subpoena issued to a California public agency identical to a Public Records Act request, as some federal agencies have done in response to attempts by parties to go around the exemptions listed in the FOIA. The language proposed herein is lifted nearly verbatim from 7 C.F.R. §1.215, which is the USDA's regulation regarding treatment of subpoenas received by that agency. By applying the same procedures and exemptions for handling of document requests, whether they be through a PRA request or a subpoena, it provides much more uniformity by and guidance to the various public agencies throughout the state, and can help prevent abuses that have been experienced.

Codifying this would avoid the likelihood of trade secrets being treated differently depending upon the agency who is the guardian of those trade secrets, as well as how the request is received.

ILLUSTRATIONS: *Give at least one specific example, preferably drawn from real life, of how this proposal would solve the problem described above. In a case one of our members has been involved in, highly sensitive trade secrets (outline of production for an animal biologic) were submitted to the*

California Department of Food and Agriculture as required by the animal biologics regulations. A competitor subpoenaed information that was trade secret, and the agency ignored the objections made on that basis and decided it was not for them to decide what to withhold. The agency was uncertain what it was supposed to do with the fact that trade secrets were involved, or the fact that it was a subpoena rather than a PRA request. Explicit language to this effect would have given the agency guidance. Instead, the agency decided it was easiest for them to simply provide the information to the requester and, if the submitter had a problem, it could go to court after the production was made to argue about what should not have been produced. Later, in a situation involving the same parties, the requester submitted a PRA request rather than a subpoena. Because no procedures were in place, the submitter did not learn about the PRA request from the agency and only by learning about it through the grapevine did they have any opportunity to object. When the submitter asked the CDFA for an opportunity to review the documents that were to be produced in response to the PRA, and opportunity to object on the basis of trade secret privilege, the CDFA declined by, once again, leaving it to the submitter to remedy any disclosures to its competitor after the fact. The agency had no interest in involving itself in the litigation by quashing a subpoena or objecting when that was the issue, and it had no interest in making determinations regarding trade secrets when it was a PRA request.

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DOCUMENTATION: *Does documentary evidence (e.g. studies, reports, statistics or facts) exist which supports your conclusion that there is a problem. If so, please list.* This proposal is supported by personal experience of committee members and members of the legal community, and based upon an admittedly unscientific canvassing of state agency personnel who all seemed very supportive of these changes to the PRA.

HISTORY: *Has a similar bill been introduced either this session or during a previous legislative session? If yes, please identify the bill, the legislative session, the bill's disposition, and include any bill analyses related to the prior legislation.* Not that the committee is aware of.

PENDING LITIGATION: *List any pending litigation of which you are aware which would be impacted by this legislation if enacted.* None.

LIKELY SUPPORT & OPPOSITION: *Which major interest groups, organizations, professional associations, governmental agencies, key lawmakers, individual attorneys, etc., are likely to support this proposal? Which are likely to oppose it. Why? What arguments will be made against it?*

Support All businesses who are required to do business with state agencies, state agencies; intellectual property practitioners; legislative	Why? : This proposal will add a level of protection for businesses who do business with state agencies, some of whom are even required by regulation to submit trade secret information. It will improve relations between the state and such businesses, and will make California more protective of business' trade secrets against
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members who have businesses as constituents that submit commercially sensitive information to the state; the governor, who is trying to make California a better business environment, American Intellectual Property Law Association. (AIPLA); Intellectual Property Owners Association (IPO); AeA (formerly American Electronics Association); California Chamber of Commerce; other trade groups with businesses who are heavily regulated or who have trade secrets that must be submitted to state agencies.	unwarranted disclosure to competitors. It adds uniformity by state agencies with regard to how such requests are handled, and puts the responsibility back on the submitter for identifying its trade secrets. It also leaves the agencies out of the dispute regarding whether the designations were properly made.
<u>Oppose</u> Uncertain	<u>Why? Include possible arguments in opposition:</u> Those who have been able to acquire trade secret or commercially sensitive information belonging to other businesses through the use of PRA requests in the past may have objection to this, but such motivations are questionable. Furthermore, the law would provide those same parties to go directly against the submitter of such information with regard to whether or not it should have been withheld from disclosure under the PRA.

FISCAL IMPACT: *How much will it cost? How will these costs be funded?* No cost associated with this proposal at this time. Agencies already deal with these requests.

GERMANENESS: Briefly explain how either:

1. The subject matter of the bill is necessarily or reasonably related to the regulation of the legal profession or improvement of the quality of legal services ***or*** It improves the handling of subpoenas and PRA requests which attorneys are regularly involved in issuing to state agencies, and helps when the issue of commercially sensitive or trade secret information arises within the scope of such requests.
2. The matter requires the special knowledge, training, experience or technical expertise of the section? The issue of trade secret protection and assuring that the laws of our state provide sufficient protection for this particular state created intellectual property is uniquely within the expertise of the section.

TEXT OF PROPOSAL: *Attach the text of the proposal, indicating changes from existing law in italicized type (for additions) or ~~strikeout type~~ (for deletions).*

Government Code § 6253 (f). *Subpoenas duces tecum for public records in judicial or administrative proceedings in which the public agency is not a party shall be deemed to be requests for records under the Public Records Act and shall be handled pursuant to the rules governing public disclosure under this chapter. Whenever a subpoena duces tecum compelling production of records is served on a public agency employee in a judicial or administrative proceeding in which the agency is not a party, the employee, after consultation with counsel, shall appear in response thereto, respectfully decline to produce the records on the grounds that it is prohibited by this section and state that the production of the records involved will be handled in accordance with and treated as a Public Records Act request.*

Government Code §6254(k):

- 1). What is the state of existing law (statutory and/or case law) on the issue?

California's Public Records Act, unlike the Freedom of Information Act under 5 U.S.C. §552, does not currently provide a specific exemption of trade secrets from disclosure. One can read such an exemption in the general language of the statute, but a more specific exclusion is necessary in order to ensure uniform application of a prohibition against such disclosure through the use of the PRA.

The proposed change is derived from the Freedom of Information Act exemptions listed at 5 U.S.C. §552(b)(4), and the definitions are taken almost verbatim from President Reagan's Executive Order 12600 of June 23, 1987, which appear at 52 FR 23781, 3 CFR, 1987 Comp., p. 235, entitled "Predisclosure notification procedures for confidential commercial information" (I have a copy of it if anyone would like to see it). The Executive Order itself provides a well-thought out procedure for handling requests involving sensitive trade secret and confidential business information, most of which is found in the following proposed statute to be added to the Government Code detailing those procedures. The procedure and handling of this type of information by federal agencies has worked well – at least better than the way California agencies have handled such requests based upon my limited experience. California can do better, especially since the guidelines for how to do so have already been laid down by the federal government in fairly concise and well-reasoned provisions.

Therefore, the IP Section is recommending that we ask the Legislature to add a specific exemption for trade secrets under Government Code §6254, along with a statutory scheme for addressing how an agency is to handle requests which seek trade secret information and the procedures to be adopted uniformly throughout state government – a system which parallels the federal government's handling of trade secret requests under the FOIA statutory scheme and regulations. Because the California Supreme Court has held that the PRA and FOIA "should receive parallel construction" [*American Civil Liberties Union Foundation v. Deukmejian* (1982) 32 Cal.3d 440, 451] it would be appropriate to use identical or near-identical language wherever possible so that California courts may rely on the large body of case law already established with regard to construction of the trade secret exclusion articulated in the FOIA and the handling of such requests by federal agencies.

- 2). What is the problem with the existing law? California public agencies have difficulty addressing PRA requests that seek sensitive proprietary information required to be submitted to the agency for regulatory compliance. This change would make the law more explicit, and assist agencies, requesters and submitters to understand the limits and processes involved when a PRA request seeks such information. It will also

- 3). How does this proposal remedy the problem? See response to No. 1 above.

ILLUSTRATIONS: *Give at least one specific example, preferably drawn from real life, of how this proposal would solve the problem described above.* In a case one of our members has been involved in, highly sensitive trade secrets (outline of production for an animal biologic) were submitted to the California Department of Food and Agriculture as required by the animal biologics regulations. A competitor subpoenaed information that was trade secret, and the agency ignored the objections made on that basis and decided it was not for them to decide what to withhold. The agency was uncertain what it was supposed to do with the fact that trade secrets were involved, or the fact that it was a subpoena rather than a PRA request. Explicit language to this effect would have given the agency guidance. Instead, the agency decided it was easiest for them to simply provide the information to the requester and, if the submitter had a problem, it could go to court after the production was made to argue about what should not have been produced. Later, in a situation involving the same parties, the requester submitted a PRA request rather than a subpoena. Because no procedures were in place, the submitter did not learn about the PRA request from the agency and only by learning about it through the grapevine did they have any opportunity to object. When the submitter asked the CDFA for an opportunity to review the documents that were to be produced in response to the PRA, and opportunity to object on the basis of trade secret privilege, the CDFA declined by, once again, leaving it to the submitter to remedy any disclosures to its competitor after the fact. The agency had no interest in involving itself in the litigation by quashing a subpoena or objecting when that was the issue, and it had no interest in making determinations regarding trade secrets when it was a PRA request.

Alternatively, when the United States Department of Agriculture was faced with a similar subpoena in an earlier litigation involving competitors in the animal biologics market, it treated the subpoena like a FOIA request. This involved notifying the submitter, allowing the submitter to review the materials that were responsive to the request and identifying the trade secret material. The submitter was required to explain how the information was trade secret, and the USDA did not produce the information in response to the subpoena/FOIA request. A procedure for handling this was followed as set forth in the Executive Order, it was done smoothly and gave the submitter great assurance that the trade secret information it was required by law to disclose to the government agency would be protected against unwarranted disclosure to a competitor.

DOCUMENTATION: *Does documentary evidence (e.g. studies, reports, statistics or facts) exist which supports your conclusion that there is a problem. If so, please list.* This proposal is supported by personal experience of committee members and members of the legal community, and based upon an admittedly unscientific canvassing of state agency personnel who all seemed very supportive of these changes to the PRA.

HISTORY: *Has a similar bill been introduced either this session or during a previous legislative session? If yes, please identify the bill, the legislative session, the bill's disposition, and include any bill analyses related to the prior legislation.* Not that the committee is aware of.

PENDING LITIGATION: *List any pending litigation of which you are aware which would be impacted by this legislation if enacted.* None.

LIKELY SUPPORT & OPPOSITION: *Which major interest groups, organizations, professional associations, governmental agencies, key lawmakers, individual attorneys, etc., are likely to support this proposal? Which are likely to oppose it. Why? What arguments will be made against it?*

<u>Support</u>	All businesses who are required to do business	<u>Why? :</u> This proposal will add a level of protection for businesses who do business with state agencies, some of whom are even
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with state agencies, state agencies; intellectual property practitioners; legislative members who have businesses as constituents that submit commercially sensitive information to the state; the governor, who is trying to make California a better business environment, American Intellectual Property Law Association. (AIPLA); Intellectual Property Owners Association (IPO); AeA (formerly American Electronics Association); California Chamber of Commerce; other trade groups with businesses who are heavily regulated or who have trade secrets that must be submitted to state agencies.	required by regulation to submit trade secret information. It will improve relations between the state and such businesses, and will make California more protective of business' trade secrets against unwarranted disclosure to competitors. It adds uniformity by state agencies with regard to how such requests are handled, and puts the responsibility back on the submitter for identifying its trade secrets. It also leaves the agencies out of the dispute regarding whether the designations were properly made.
<u>Oppose</u> Uncertain	<u>Why? Include possible arguments in opposition:</u> Those who have been able to acquire trade secret or commercially sensitive information belonging to other businesses through the use of PRA requests in the past may have objection to this, but such motivations are questionable. Furthermore, the law would provide those same parties to go directly against the submitter of such information with regard to whether or not it should have been withheld from disclosure under the PRA.

FISCAL IMPACT: *How much will it cost? How will these costs be funded?* No cost associated with this proposal at this time. Agencies already deal with these requests.

GERMANENESS: Briefly explain how either:

1. The subject matter of the bill is necessarily or reasonably related to the regulation of the legal profession or improvement of the quality of legal services *or* It improves the handling of subpoenas and PRA requests which attorneys are regularly involved in issuing to state agencies, and helps when the issue of commercially sensitive or trade secret information arises within the scope of such requests.
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TEXT OF PROPOSAL: *Attach the text of the proposal, indicating changes from existing law in italicized type (for additions) or ~~strikeout type~~ (for deletions).*

Government Code §6254. Exemption of particular records

Except as provided in Sections 6254.7 and 6254.13, nothing in this chapter shall be construed to require disclosure of records that are any of the following:

...

(k) Records, the disclosure of which is exempted or prohibited pursuant to federal or state law, including, but not limited to, provisions of the Evidence Code relating to privilege. *Said exemption shall include records which contain trade secret information and confidential commercial or financial information obtained from a submitter which is privileged or confidential. For purposes of this statute, the following definitions shall apply:*

(i) *“Trade secret” refers to that term as it is defined in the Uniform Trade Secrets Act found at California Civil Code §3426.1(d).*

(ii) *“Confidential commercial or financial information” means business and financial records provided to the government by a submitter that contain material the disclosure of which could reasonably be expected to cause substantial competitive harm.*

(iii) *“Submitter” means any person or entity who provides trade secret or confidential commercial or financial information to the government. The term “submitter” includes, but is not limited to, individuals, corporations, limited liability companies, and partnerships.*

New Government Code Section – Predisclosure Notification Procedures for Trade Secrets, Confidential Commercial and Financial Information:

1). What is the state of existing law (statutory and/or case law) on the issue?

See comments above on Government Code proposed changes. This change is proposed in order to provide predisclosure notification procedures under the Public Records Act concerning the potential disclosure of trade secret, confidential commercial and financial information by a government agency, and to make existing agency notification provisions more uniform throughout the State of California. Again, this is taken nearly verbatim from the Executive Order No.12600, 52 Fed. Reg. 23,781 (June 23, 1987)., setting forth procedures used by the United States’ government since the issuance of Executive Order No. 12600.

Language has also been added regarding a “Vaughan Index,” which is required under federal law. Specifically, it is proposed that California codify the federal requirement that the agency responding to a FOIA request where trade secrets are withheld must provide a document similar to a privilege log to show what portions of the information may be segregable and properly produced.

Finally, included is the additional proposal to leave any disputes regarding designations of material exemption from disclosure to be between the requester and the submitter of the records – leaving the government agency out of the dispute and allowing it to stay neutral.

To summarize the purpose -- The statutory scheme should provide the business whose trade secrets are at risk the opportunity to assert that information sought under the PRA request (or subpoena treated as a PRA request) is trade secret – in essence a procedure similar to the one adopted under FOIA. Once these objections are raised by the owner, the agency would merely act as a conduit for forwarding those objections to the party requesting the information. If the party seeking the information objects to the characterization of the information as trade secret, the two parties in dispute should be required to

seek a remedy outside of the government agency and not involving the government agency – either through an administrative law proceeding or civil writ process.

2). What is the problem with the existing law?

See above. There is a lack of uniform process throughout the state agencies for handling requests involving trade secret or commercially sensitive information. The lack of procedures in place makes the submission of such information very risky by a company required to do so by regulation, and creates unnecessary tension and distrust between the submitter and the agency. The current state of the law also places too much work on the government agency to make decisions and possibly be held accountable for not properly withholding trade secret information or for not properly disclosing non-trade secret information to a requester.

3). How does this proposal remedy the problem?

See above. This proposal, which has worked for the federal government agencies for nearly 20 years, takes such decisions and responsibility out of the agencies hands and passes it on to the submitter, with the requester being able to challenge the submitter's designation directly without having to involve the state agency. It would be most welcome by state agencies as well as by the businesses who are required to do business with them. It would create a new level of trust and comfort with regard to submitting commercially sensitive information to the state.

ILLUSTRATIONS: *Give at least one specific example, preferably drawn from real life, of how this proposal would solve the problem described above.*

In a case one of our members has been involved in, highly sensitive trade secrets (outline of production for an animal biologic) were submitted to the California Department of Food and Agriculture as required by the animal biologics regulations. A competitor subpoenaed information that was trade secret, and the agency ignored the objections made on that basis and decided it was not for them to decide what to withhold. Instead, the agency decided it was easiest for them to simply provide the information to the requester and, if the submitter had a problem, it could go to court after the production was made to argue about what should not have been produced. Later, in a situation involving the same parties, the requester submitted a PRA request rather than a subpoena. Because no procedures were in place, the submitter did not learn about the PRA request from the agency and only by learning about it through the grapevine did they have any opportunity to object. When the submitter asked the CDFA for an opportunity to review the documents that were to be produced in response to the PRA, and opportunity to object on the basis of trade secret privilege, the CDFA declined by, once again, leaving it to the submitter to remedy any disclosures to its competitor after the fact. The agency had no interest in involving itself in the litigation by quashing a subpoena or objecting when that was the issue, and it had no interest in making determinations regarding trade secrets when it was a PRA request.

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PENDING LITIGATION: *List any pending litigation of which you are aware which would be impacted by this legislation if enacted.* None.

LIKELY SUPPORT & OPPOSITION: *Which major interest groups, organizations, professional associations, governmental agencies, key lawmakers, individual attorneys, etc., are likely to support this proposal? Which are likely to oppose it. Why? What arguments will be made against it?*

<p><u>Support</u> All businesses who are required to do business with state agencies, state agencies; intellectual property practitioners; legislative members who have businesses as constituents that submit commercially sensitive information to the state; the governor, who is trying to make California a better business environment, American Intellectual Property Law Association. (AIPLA); Intellectual Property Owners Association (IPO); AeA (formerly American Electronics Association); California Chamber of Commerce; other trade groups with businesses who are heavily regulated or who have trade secrets that must be submitted to state agencies.</p>	<p><u>Why? :</u> This proposal will add a level of protection for businesses who do business with state agencies, some of whom are even required by regulation to submit trade secret information. It will improve relations between the state and such businesses, and will make California more protective of business' trade secrets against unwarranted disclosure to competitors. It adds uniformity by state agencies with regard to how such requests are handled, and puts the responsibility back on the submitter for identifying its trade secrets. It also leaves the agencies out of the dispute regarding whether the designations were properly made.</p>
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	regard to whether or not it should have been withheld from disclosure under the PRA.
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1. The subject matter of the bill is necessarily or reasonably related to the regulation of the legal profession or improvement of the quality of legal services *or* It improves the handling of subpoenas and PRA requests which attorneys are regularly involved in issuing to state agencies, and helps when the issue of commercially sensitive or trade secret information arises within the scope of such requests.
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TEXT OF PROPOSAL: *Attach the text of the proposal, indicating changes from existing law in italicized type (for additions) or ~~strikeout type~~ (for deletions).*

Government Code §[Number to be assigned]: Predisclosure Notification Procedures for Trade Secrets, Confidential Commercial and Financial Information.

(a) The head of each department and agency subject to the Public Records Act (California Government Code §6253 et seq., "PRA") shall, to the extent permitted by law, establish procedures to notify submitters of records containing trade secret, confidential commercial or financial information (as defined in subsection k of Government Code §6254) , when those records are requested under the Act, if after reviewing the request, and the responsive records, the department or agency determines that it may be required to disclose the records. Such notice requires that an agency use good-faith efforts to advise submitters of such protected information of the procedures established under this statute. Further, where notification of a voluminous number of submitters is required, such notification may be accomplished by posting or publishing the notice in a place reasonably calculated to accomplish notification.

(b) (i) For information which falls within the exemption stated in subsection (k) of Government Code §6254, submitted prior to January 1, 2007, the head of each department or agency shall, to the extent permitted by law, provide a submitter with notice pursuant to section 1 whenever:

- (I) the records are less than 10 years old and the information has been designated by the submitter as confidential commercial information; or*
- (II) the department or agency has reason to believe that disclosure of the information could reasonably be expected to cause substantial competitive harm.*

(ii) For confidential commercial information submitted on or after January 1, 2007, the head of each department or agency shall, to the extent permitted by law, establish procedures to permit submitters of trade secret, confidential commercial and financial information to designate, at the time the information is submitted to the government agency or a reasonable time thereafter, any information the disclosure of which the submitter claims could reasonably be expected to cause

substantial competitive harm. Such agency procedures may provide for the expiration, after a specified period of time or changes in circumstances, of designations of competitive harm made by submitters. Additionally, such procedures may permit the agency to designate specific classes of information that will be treated by the agency as if the information had been so designated by the submitter. The head of each department or agency shall, to the extent permitted by law, provide the submitter notice in accordance with subsection (a) of this section whenever the department or agency determines that it may be required to disclose records:

- (I) designated pursuant to this subsection; or*
- (II) fall within the exemption specified in subsection (k) of Government Code §6254; or*
- (III) the disclosure of which the department or agency has reason to believe could reasonably be expected to cause substantial competitive harm.*

(c) When notification is made pursuant to subsection (a), each agency's procedures shall, to the extent permitted by law, afford the submitter a reasonable period of time in which the submitter or its designee may object to the disclosure of any specified portion of the information and to state all grounds upon which disclosure is opposed.

(d) Each agency shall give careful consideration to all such specified grounds for nondisclosure prior to making an administrative determination of the issue. In all instances when the agency determines to disclose the requested records, its procedures shall provide that the agency give the submitter a written statement briefly explaining why the submitter's objections are not sustained. Such statement shall, to the extent permitted by law, be provided to submitter at least fifteen (15) calendar days prior to the specified disclosure date to allow the submitter to seek legal remedies to prevent such disclosure.

(e) The notice requirements of this section need not be followed if:

- (i) The agency determines that the information should not be disclosed;*
- (ii) The information has been published or has been officially made available to the public;*
- (iii) Disclosure of the information is required by law (other than Government Code §6253 et seq.);*
- (iv) The disclosure is required by an agency rule that (1) was adopted pursuant to notice and public comment, (2) specifies narrow classes of records submitted to the agency that are to be released under the Public Records Act, and (3) provides in exceptional circumstances for notice when the submitter provides written justification, at the time the information is submitted or a reasonable time thereafter, that disclosure of the information could reasonably be expected to cause substantial competitive harm;*
- (v) The information requested is not designated by the submitter as exempt from disclosure when the submitter had an opportunity to do so at the time of submission of the information or a reasonable time thereafter, unless the agency has substantial reason to believe that disclosure of the information would result in competitive harm; or*
- (vi) The designation made by the submitter appears obviously frivolous; except that, in such case, the agency must provide the submitter with written notice of any final administrative disclosure determination within fifteen (15) calendar days prior to the specified disclosure date.*

(f) Whenever an agency notifies a submitter that it may be required to disclose information pursuant to subsection a hereof, the agency shall also notify the requester that notice and an opportunity to comment are being provided the submitter. Whenever an agency notifies a submitter of a final decision pursuant to subsection (d) of this section, the agency shall also notify the requester.

(g) In the event that the agency has deleted segregable portions of the record which are deemed exempt as provided for in section 6253(a), the records withheld and the information deleted shall be indicated on the released portion of the record, unless including that indication would harm an interest protected by the exemption stated in subsection (k) of section 6254 under which the deletion is made. If technically feasible, the amount of the information deleted shall be indicated at the place in the record where such deletion is made.

(h) In the event that the agency denies disclosure of information requested, the agency shall provide the requested with an index identifying the record which has had portions deleted or which has been withheld entirely, without disclosing any details of that record which are trade secret, confidential commercial or financial information, or which could reasonably be expected to cause substantial competitive harm.

(i) Any suit brought by the requester seeking to compel disclosure of records withheld by the agency due to the designation hereunder that those records contain trade secret, confidential commercial or financial information, shall be brought only against the submitter of said records and not against the agency responding to the request or subpoena. Such action shall be in the form of injunctive relief against the submitter, if the designations of exempt material were improperly made, either requiring that the submitter produce such records directly to the requester or otherwise require that the designations made by the submitter be changed to allow the agency to produce the records requested.

Revised September 20, 2005

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1. Email original to Saul Bercovitch, Staff Attorney, Office of Governmental Affairs, Saul.Bercovitch@calbar.ca.gov, 415.538.2306. Send a copy to Larry Doyle, Chief Legislative Counsel (Larry.Doyle@calbar.ca.gov, 916.442-8018).
 2. Article 2 of Chapter 1 of Division 5 of the State Bar Administrative Manual